COMMONWEALTH OF MASSACHUSETTS

BEFORE THE

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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City of Haverhill Municipal Aggregation) D.T.E. 99-93

City of Easthampton Municipal Aggregation) D.T.E. 99-103

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COMMENTS OF MASSACHUSETTS ELECTRIC COMPANY AND

WESTERN MASSACHUSETTS ELECTRIC COMPANY

Western Massachusetts Electric Company (AWMECO≅) and Massachusetts Electric Company (AMass. Electric≅) (collectively, the ACompanies≅) respectfully provide the Department of Telecommunications and Energy (ADepartment≅) with the following joint comments on the City of Haverhill=s (AHaverhill=s≅) and the City of Easthampton=s (AEasthampton=s≅) (collectively, the ACities≅) plans for municipal aggregation.

The Companies support Easthampton=s and Haverhill=s goal to become municipal aggregators and applaud the great efforts that the Cities are taking to create value for the inhabitants. The Companies have reviewed the various aggregation plans, petitions for approval, and responses to information requests submitted to the Department. They have also attended technical sessions and a procedural conference at the Department, and have met and talked with the Cities and their consultants. With this background, the Companies offer their comments.

I. <u>The APlan≅</u>

As an overall comment, the Companies believe that the documents that the Cities have provided to the Department do not constitute a coherent, unambiguous plan as required by statute. As far as the Companies can determine, the Cities= plans are made up of documents filed on November 4, 1999 and April 12, 2000. (The proposal set forth by Haverhill, in addition to an aggregation proposal, includes a request to delivery energy services.) The April 12th documents include a APetition for Approval≅ and ATariff Agreements.≅ In certain respects, the documents submitted on November 4 and April 12 are inconsistent, and, thus, ~~On November 4, 1999, both Haverhill and Easthampton filed aggregation plans at the Department. (In addition, Haverhill filed a plan to deliver energy efficiency services.)~~

~~On April 12, 2000, Haverhill and Easthampton filed a APetition for Approval≅ and ATariff Agreements.≅ All three set forth a blueprint for the supply of electric generation to be provided by those Cities. In many respects, they are complementary, but not always. Thus,~~ it is not possible to know the precise intention of the Cities. In addition, even taken as a whole~~viewed together~~, the documents~~y~~ do not contain the minimum amount of information that G.L. c. 164, ə 134(a) requires of plans filed for final review and approval with the Department: Aan organizational structure of the program, its operations, and its funding; rate setting and other costs to participants; the methods for entering and terminating agreements with other entities; the rights and responsibilities of program participants; and termination of the program.≅

Although the Companies do not wish to delay the Department=s consideration of the Cities= aggregation proposal, they respectfully request an opportunity to comment further once a comprehensive proposal that complies with G.L. c. 164, ə 134(a), has been put before the Department. Given the lack of a true plan, it is difficult to submit meaningful comments. However, in order to provide the Department with as much feedback as possible the Companies include the following additional comments on elements of the materials submitted by the Cities.~~As the Companies discuss in these comments, the lack of information about these elements makes it difficult to know exactly what the aggregation plan is that the Companies are to be commenting on.~~

Comments on Specific Elements of the Cities= Proposal

A. The Cities Should File Their Supply Contracts For Review

In the November 4, 1999 documents~~plans~~, the Cities stated that they would file their supply contracts with the Department for approval. Instead of filing contracts, however, the Cities have filed ATariff Agreements.≅ These ATariff Agreements,≅ not subject to Department review of utility tariffs pursuant to G.L c. 164, ə 94, do not contain critical information about the relationship of the Cities to the supplier and the ability of the supplier to perform that are necessary to review the proposal. ~~Thus,~~Without the contract(s), the Department has insufficient information about every aspect required under G.L. c. 164, ə 134(a), especially the organizational structure of the program, methods for entering and terminating agreements with other entities, and termination of the program.

B. The Cities= Proposal Should Contain A Starting And End Date

The Cities= proposal~~In addition, the proposal~~ does not commit to a time schedule for the municipal aggregation, both at the start and at the end. Although it is clear to the Companies that the Cities intend to implement the aggregation over the course of twelve months, the Cities do not commit~~are silent~~ as to when the twelve months begin. Perhaps the Cities hope to have their aggregation plan approved and be ready for implementation whenever they find a good price. The Companies do not believe that the Department should ~~not~~ approve a program that does not specify when it is to begin and does not,

~~without a start date or range of start time. A~~as required by M.G.L. c. 164, ə 134 (a), specify how and when it is to be terminated.~~the proposal does not cover termination of the program.~~

~~**Given that the Companies do not believe that the Cities have yet filed comprehensive plans that explain the proposed aggregation in accordance with the requirements of M.G.L. c. 164, ə 134 (a), these comments are broad and address the general outline of the aggregation plan.**~~ **C. An Aggregation Plan Should Not Be Staggered**

The Cities propose to offer service in stages by rate class, with no more than one year between the initiation of service to the first rate class served and the last (Petition for Approval, p. 3). Such a staggered start does not appear to be consistent with G.L. c. 164, ə 134 (a)~~The Companies question whether this is allowed by the municipal aggregation statute~~, which requires that A[w]ithin 30 days of the date the aggregated entity is fully operational, such ratepayers shall be transferred to the aggregated entity according to an opt-out provision herein.≅ Moreover, the Companies question the fairness of barring some customers from a municipal aggregation for a substantial period of time.~~If not, Haverhill and Easthampton must either revise their current plan to have one start date, or must follow the requirements for non-municipal aggregators.~~

D. Reliability Should Be The Responsibility Of The Aggregator

In their proposal, t~~T~~he Cities state that A[s]ince the distribution utility is the supplier of last resort at default service rates, reliability of supply, [sic] is in the final analysis a financial undertaking.≅ Petition for Approval, p. 3. The Companies strongly disagree. The Cities must enter into contracts with suppliers who are able to fulfill obligations under a contract sufficient to continue supply to all aggregated customers. The Companies urge the Department to review the Cities= contracts to ensure that there are adequate safeguards for a reliable supply. The Companies do not believe that default service, as contemplated in the Petition for Approval, is the appropriate answer to an inquiry into the reliability of contemplated service.

In a related issue~~As a side note~~, the Companies note that the Cities= proposal does not appear to ~~no documents~~ provide for notice to the Companies in the event that the supplier is unable to perform, or for other reasons that may necessitate customers returning to the Companies for service. Such a notice is critical in advance of customer return so that the~~The~~ Companies can adequately serve these returning customers.~~need such notice in advance of such an event, in order to make provisions for supply and respond to customers.~~

E. The Cities= Proposal Should Include Pricing Provisions

As indicated above, in their November 4, 1999 filing, the Cities state that they would be submitting their power supply contracts, including pricing, to the Department for the Department=s approval. The Cities now describe the electric market as volatile, and thus are seeking to avoid Department approval of their power supply contract. ~~as they originally proposed in November.~~ Because the market is so volatile, ~~For this very reason,~~ the Companies believe that it is imperative that the Department review the Cities= contracts. For example, Mass. Electric=s May 1, 2000~~recen~~ filing for approval of default service rates ~~(D.T.E. _____)~~ indicates that Haverhill is unlikely to find a market price better than Mass. Electric=s standard offer price. The Department needs to review the Cities= contracts with suppliers to assure itself of the ability of the Cities to realize the prices that they have set forth in their ATariff Agreements.≅

A further important reason that the Department should require the Cities to submit their contracts for review is to determine if the Cities are intending to >game= the Standard Offer rate to the detriment of other customers. ~~In addition, review of the contracts would enable the Department and the Companies to ascertain whether the Cities= plans would negatively impact other customers of the Companies~~ Mass. Electric=s Default Service Contract extends through October 2000. WMECO has Standard Offer and Default Service through December 2000. Both Companies will be going out to bid for future Default and/or Standard Offer Service this Fall. In discussions with the Cities, i~~I~~t has come to the Companies= attention that the Cities may attempt to enter into a contract with a supplier to~~suppliers are signing contracts with customers to~~ serve customers= loads for nine months of the year (September through May). The customer would then be obligated to take service via Standard Offer or Default Service ~~and return the customer to the distribution company=s default service for~~for the three ~~high-cost~~ summer months, which are by far the most expensive months. The Companies strongly oppose any such effort to game the Standard Offer/Default Service in this manner. Should such a proposal be adopted, suppliers that bid to supply the Companies= Standard Offer and Default Service loads may submit higher bids than otherwise would be the case, thereby increasing costs to the Companies= other customers. Put another way, if Standard Offer/Default Bidders know that all the municipal aggregation customers will be returning for the high-cost summer months, their bids per kWh will be higher and the non-aggregation customers will have to bear this higher cost. ~~If Easthampton were to enter into such an agreement for serving its municipal aggregation load, it could have an impact on how suppliers bid on WMECO=s default service in the future.~~ ~~**(Mike Hager: same concern?)**~~

F. The Cities Have Miscalculated Mass. Electric=s Standard Offer Rate

Mass. Electric=s Standard Offer rate in future years is expected to be the base price under its Standard Offer contract plus an adjustment for the prior year=s undercollections, if any. Undercollections result from additional payments Mass. Electric makes pursuant to the final adjustment provision in its contracts, such as prior period billing adjustments under the contracts and to retail customers. For 2001, the price will be 3.84/kWh plus any undercollections for the period October 1, 1999 - September 30, 2000. Through March

2000, the Company has not incurred any costs under the fuel adjustment provision in its contract.

Haverhill=s description of Mass. Electric=s Standard Offer pricing is incorrect. Assuming Haverhill=s calculations in the Petition for Approval are correct, Mass. Electric would pay for standard offer service a base rate of 3.84 per kWh and a fuel adjustment rate of 0.54 per kWh in January 2001. Customers would continue to pay 3.84 per kWh for Standard Offer service, however, as Mass. Electric would not collect the fuel adjustment rate of 0.54 per kWh from customers until 2002.

G. The Cities Proposed Hybrid Billing Services is Contrary to Existing Department Rules

In their proposals, t~~T~~he Cities have stated they wish~~elected~~ to have the Companies provide all billing services for them. The Companies do not take issue with this election~~,~~. Suppliers, including municipal aggregators, may opt to have the utility provide billing services, referred to as ~~pursuant to the~~ AStandard Complete Billing Service≅, as set forth in the Companies= Terms and Conditions for Competitive Suppliers, M.D.T.E. No. 1024A for WMECO and M.D.T.E. No. 986B for Mass. Electric. Under~~Pursuant to~~ these Terms and Conditions, Standard Complete Billing does not include credit and collection services. The other option the Cities could have chosen under the Department=s rules was APassthrough Billing≅

~~As the Cities point out, Standard Complete Billing Service is one of two billing options that the utilities provide pursuant to the Restructuring Act of 1997. The other option, Passthrough Billing,~~ which provides that ~~allows~~ the distribution company will bill for ~~to bill for~~ distribution costs and the supplier will bill separately~~to bill~~ for generation costs. The rules for both Standard Complete Billing Service and Passthrough Billing ~~parameters of both~~ are in the Terms and Conditions approved by the Department in D.P.U. 97-65 ~~are set forth in M.G.L. c. 164, ə __~~ and in the Electronic Business Transaction (AEBT≅) standards derived by a consensus of a wide spectrum of interested stakeholders following the restructuring legislation, set forth in the EBT Working Group Report. These two billing options are mandated by c. 164, ə 1D.

Unfortunately, however, ~~In general,~~ the proposal~~lan~~ set forth by the Cities improperly combines various aspects of these two billing options and requests completely new billing procedures never approved by the Department anywhere.~~.~~ As the Department is well aware, there are reasons for the manner in which the two separate billing protocols, Standard Complete and Passthrough, were adopted. All the rules presently in place were the subject of considerable scrutiny by the Department in its Terms and Conditions proceeding and by the EBT Working Group. Apart from the statutory mandate of two billing options, adopting an ad hoc third billing option without the same scrutiny is inappropriate, unwarranted and unworkable. Such a result would effectively nullify the existing billing Terms and Conditions and allow every supplier, or at least every municipal aggregator, to state their own billing terms. Further, even if the billing procedure somehow could be made to work, it would impose significant additional costs

on the Companies; costs their other customers would have to bear. They also set forth new procedures. These variations from the standard billing options are unworkable and will add significant costs to the Companies. The Companies recommend that the Department require the Cities to follow all requirements for Standard Complete Billing Service that as set forth in the Companies= terms and conditions, cited above, and the EBT standards. All other electric suppliers are required to follow these guidelines, and to allow each municipality to have different rules is unworkable.

Finally, with respect to Tthe Cities= proposal provides that the Companies will issue bills monthly, on the day following the meter reading date,. While this is mostly accurate the Companies note that there are occasions on which the Companies do not issue the bills the next day. For example, if a particular reading appears either too high or too low, the Companies investigate further prior to billing. In all cases, the Companies issue bills in accordance with Department regulations. Any aggregation plan should reflect the existing procedure.

, and the Companies recommend that the proposal be revised to state this.

H. The Cities= Opt-Out Proposal Should Be Modified

The opt-out form included by the Cities in their April 12 documents requires the customer to include a copy of his/her most recent utility bill from WMECO or Mass. Electric. The Companies object to this proposal because it will be This step will be burdensome for both the customer and the Companies. Requiring a copy of a bill will generate calls to the Companies by customers who do not keep or can not locate past bills. While the number of calls generated may not be great with the number of customers in the two municipal aggregations proposed, it would set a precedent and lead to aApparently, this requirement is to ensure that the customer is not enrolled in the aggregation plan inadvertently. Customers can be just as easily removed from the enrollment list by verifying their names and addresses without any account number information. This is the method preferred by the Companies, as it is the least-cost method. Requiring a copy of a bill will generate calls to the Companies for the copy. While this may be a small hardship for the municipal aggregations occurring at this time, it could be a large burden if other communities in the Companies= service territories decide to participate in a municipal aggregatione.

Apparently, the Cities proposal is motivated by an interest in ensuring that a customer is not enrolled in the aggregation plan inadvertently. However, customers can be just as easily removed from the enrollment list by verifying their names and addresses with any account number information. This is an efficient method and the one preferred by the Companies.

There are several additional smaller issues with regard to the Cities= opt-out provision. There are:

(1)~~In addition, although the Petition for Approval states otherwise,~~ T~~t~~he opt-out form itself indicates that the form is only available at the mayor=s office but the Petition for Approval states to the contrary. This contradiction should be rectified. The opt-out~~is~~ form should be included in the Cities= mailing to the customer and should be available by mail in the future if requested by customers. A ~~C~~customer~~s~~ should not have to make a special trip~~s~~ to City Hall to get this form.

(2) It is unclear when~~what the time frame is regarding when~~ the opt-out form will be mailed to customers and when the enrollment takes place. The length of time that a customer has to opt-out should be included in the materials sent to the customers.

(3) The Companies note that the Cities= proposal states that customers are "automatically" enrolled. From the customers= perspective~~As far as what the customer thinks~~, this is accurate~~at is appropriate~~. However, the Companies expect the supplier to enroll all customers using standard EBT transactions in accordance with the approved EBT Working Group Report, as every other supplier is required to do.

(4) ~~In addition, t~~The Cities proposed retail >tariff= agreement provides customers with a second 180 day opt-out opportunity if the Cities either renew their contract or acquire a new contract after the initial one terminates. The Companies note that customers opting out at that time would be placed on default, not standard offer, service.

~~Finally,~~ The Companies note that the proposed ~~O~~opt-out form in the November filing mentions special meter reading charges, although neither company currently has any.

The Companies= Terms and Conditions for Competitive Suppliers allow the customer to contact the Companies directly to drop service. Therefore, any provision limiting a customer=s right to contact the Companies directly would be a more restrictive provision than is contained in existing rules.

I. Credit and Collection Rules

As discussed in the ABilling Services≅ section above, the Cities have opted for Standard Complete Billing Service and the Companies propose to provide that service for the Cities similarly to how they provide it for all other suppliers. Similarly, the Companies have standard credit and collection rules, which are not accurately portrayed in the Cities= Petition for Approval.

First, the Companies perform all billing and termination services pursuant to applicable regulations and the EBT Working Group Report. When the cities state that Athe bill from the LDC includes an arrears notice that directs the same consumer to make payment directly to the LDC for both generation service and distribution service,≅ they are incorrect. The Companies= billing and credit systems are separate. Although the Companies= bills show any arrears due to the Companies and a competitive supplier,

they are not collection notices. Collection notices are addressed through the Companies= credit systems, and are for amounts due to the Companies only.

Accordingly, the Companies= collection notices should not contain any notices about termination from an aggregation plan, especially when each plan could be different. Collection notices are static and apply to all customers. There is no way to specify different notices going to any one group of customers.

In the Cities= Petition for Approval, they claim that the Companies= noticing policies, incorrectly described as discussed above, are Aat a minimum confusing, and at a maximum borderline deceptive.≅ The Companies strongly object to this assessment. There is nothing deceptive about the Companies= procedures, which have all been approved by the Department.

Second, the Cities have requested that the Department order the Companies to transfer a portion of customers= security deposits to the Cities. The Companies strongly object to this request.

The Companies collect security deposits pursuant to 220 C.M.R. 26.00 et seq. and company specific terms and conditions approved by the Department, M.D.T.E. No. 1023A for WMECO and M.D.T.E. No.983B for Mass. Electric as a protection for all customers against bad debt expense. If the Department were to grant this request, the Companies would be denied the security deposit that Department regulations allow them.

The Companies inform the customer at the time of service activation of any security deposit requirement and the method for initiating an adjustment of a security deposit if usage patterns change and/or amount. In addition, the Companies pay the customer interest at Department-approved rates. Security deposits are not a revenue producing asset. The criteria used by the Cities to require a deposit and calculate the amount may be different than the criteria used by the Companies.

This proposal would be extremely costly to the Companies. The Companies collect deposits from new customers and customers deemed more likely to be a credit risk. In light of this knowledge, the Companies have no guarantee that the aggregator will not drop the customer and the customer will return to default service. If the Companies give a portion of the security deposit to the aggregator, then the Companies would have to go back to the customer and collect again, thus twice incurring the cost of deposit collection. In addition, the Companies incurred the cost of collecting the security deposit in the first instance which they would be required to turn over to the Cities for their benefit.

It has always been the Companies= practice to return security deposits to the customer of record. The Companies object to passing over security deposits to aggregators and if directed by the Department to turn over a portion of security deposits held, prefer to return a portion of the security deposit back to the customer, not the aggregator. In addition, if directed by the Department to turn over a portion of the security deposits

held, the Companies request that Department require the Cities to inform the affected customers of this fact.

The Companies question the Cities= assertion that Athe single biggest obstacle to municipal aggregation in Massachusetts is the cost of managing the credit and collection risk.≅ Surely offer price, reliability, customer service, and supplier reputation come first. Avoiding the need to physically manage termination saves the aggregator collection costs which are borne by the Companies.

Finally, The Companies note several more particular points regarding the collection notices. The Cities procedures must by in line with the EBT Working Group Report protocols. For example, termination dates set forth in collection notes must be a scheduled meter reading date. The Cities must develop a plan for informing the Companies if a customer makes a payment directly to the Cities. The second notice must include the termination fee.

J. Low-Income Rules

In their November filing, the Cities state that the Companies are responsible for guaranteeing payment to the generation supplier for all power sold to low income customers at discounted rates. This is not correct. 220 C.M.R. 11.0–4(5)(e)– requires the Companies to guarantee an amount equal to the three most recent billing months. In addition, the Cities state that low income customers are always entitled to return to standard offer service. The Companies note that this service ends on February 28, 2005.

K. Line Losses

The Cities propose to use a rate-class specific cost of line losses. WMECO would like to note that the numbers provided for these costs were calculated by Easthampton and were not provided by the Company. WMECO does not calculate rate-class-specific line losses. Line losses are fixed on a system-wide basis for the Northeast Utilities system for both primary and secondary losses. The line loss factors provided by the Company were 2.33% for primary losses and 5.16% for secondary losses.

Mass. Electric also does not assign rate-class specific line losses. During an initial step in its load estimation process, Mass. Electric assigns a fixed line loss value to customers based on rate class. This value is adjusted later on in the process, up or down, to balance the estimated loads to actual metered loads in order to capture the real time nature of losses. The initial fixed losses that Mass. Electric uses are 0% for customers connected at transmission voltage, 3.8% for customers in the G-3 rate class, and 6.9% for all other customers.

Haverhill Energy Efficiency Plan

Haverhill intends to offer energy efficiency services to its inhabitants with funds collected by Mass. Electric from Haverhill ratepayers. Haverhill generally proposes to offer Mass. Electric=s programs, which Mass. Electric supports.

If the Department allows Haverhill to stagger the implementation of its aggregation over twelve months, however, Mass. Electric recommends that Haverhill not be allowed access to the energy efficiency funds of rate classes not yet receiving generation from the aggregation. These customers are still Mass. Electric customers, and should be able to receive the benefits of Mass. Electric=s energy efficiency programs. The opposite result would put these customers subject to Haverhill=s energy efficiency plan, which does not propose to offer them services from the start.

Haverhill expects to initiate program services to larger commercial and industrial customers in July, with a primary focus on redeveloping Haverhill=s downtown, to G-2 customers this fall, perhaps as early as October, and to the rest of the businesses and residents about twelve months from when the first customers get program services. During this period, Haverhill intends to receive all of the energy efficiency funding contributed by all of the businesses and residents. The delivery of energy efficiency services to Haverhill=s large customers will be at the expense of all of the other customers. Mass. Electric will not have any funding with which to allow the many Haverhill businesses and residents to participate in energy efficiency programs, but Haverhill programs will also not be open to them.

In addition, Haverhill has set forth a transition process in its response to DTE Information Request 1-21. This transition process contemplates a 90 to 120 day transition period following plan certification during which Mass. Electric would transfer to Haverhill that portion of energy efficiency funding that is related to administration. During that time, however, Mass. Electric would still be responsible for providing energy efficiency services to the residents and businesses of Haverhill. In effect, this proposal would cause other Mass. Electric customers to subsidize Haverhill.

For commercial and industrial customers, the energy efficiency plan is similar to Mass. Electric=s. It appears, however, that many of the complementary services that Mass. Electric offers to maximize participation and results, such as financing, special assistance from application through installation (Project Expediter), comprehensive project evaluations for electric and non-electric savings (Industrial Systems Optimization Service), and an alternative application process for large commercial and industrial customers which directly links the legislatively mandated funds they pay with the rebates they receive will not be available to these customers. Mass. Electric notes that from the customers= perspective, they are paying the same energy efficiency surcharge but have less services available to them.

For all programs, Haverhill has not set up its delivery and administrative services, which will impact greatly on the quality and success of the programs. Mass. Electric recommends that the Department investigate Haverhill=s ability to deliver the energy efficiency services that it proposes.

Finally, Mass. Electric notes that the energy efficiency plan does not address whether customers who opt out of the city=s aggregation plan will receive services from Mass. Electric or Haverhill. In addition, the proposed energy efficiency plan does not address what happens to projects already in progress. Mass. Electric must be able to honor commitments it makes to residents and businesses in Haverhill prior to the transition.

Conclusion

Pursuant to the comments set forth above, the Companies respectfully request that the Cities submit a comprehensive aggregation plan for final review and comment by the Companies and the Department, and that the Cities revise those elements of their proposal in light of the Companies= specific comments herein.

Respectfully submitted,

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